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SENSITIVE
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STATE FOR EAP/RSP/TC AND EEB
STATE PASS TO AIT/W FOR RICK RUZICKA
STATE PASS TO USTR FOR ERIC ALTBACH AND MCHALE
COMMERCE FOR ITA/OPB BRENDA CARTER-NIXON

E.O. 12958: N/A

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SUBJECT: Taiwan Telecom: Carlyle Sells Kbro to Taiwan Mobile

Reftel: A) Taipei 476; B) Taipei 580

Summary

¶1. (SBU) Taiwan Mobile Company announced September 16 it will spend NTD 32.8 billion (USD one billion) to buy Kbro Company, Taiwan's second-largest cable TV system operator, from the Carlyle Group. Taiwan mobile will be the market leader among cable TV system operators, providing service to one-third of all cable customers in Taiwan. The National Communications Commission (NCC) and Taiwan Fair Trade Commission (TFTC) will both review the deal, which is also subject to the approval of Taiwan Mobile's shareholders. The sale is unlikely to affect Kbro's ongoing appeals of several controversial license-renewal decisions by the NCC (ref A). End summary.

The Deal

¶2. (U) Taiwan Mobile, a subsidiary of Taiwan's banking giant the Fubon Group, is Taiwan's second-largest telecom operator after state-controlled Chunghwa Telecom. Under the deal, Carlyle will swap control of Kbro--originally acquired by Carlyle in 2006 for USD 1.5 billion--for USD one billion, with Taiwan Mobile also assuming USD 800 million in Kbro debt. Carlyle will subsequently hold a 15.5 percent stake in Taiwan Mobile, making Carlyle Taiwan Mobile's second-largest shareholder after the controlling Tsai family. Carlyle will also have two seats on Taiwan Mobile's board. By adding Kbro's 22.4 percent share of the Taiwan cable market to the Taiwan Mobile-owned Taigu Media Company's 11 percent share, Taiwan Mobile will become the island's largest cable-television service provider.

NCC, FTC Approval Needed

¶3. (SBU) The NCC and TFTC, however, must first approve the sale. On September 17, NCC Operational Administration Department Deputy Director Huang Chin-yi told AIT the NCC will examine whether the deal violates the Taiwan Cable Television Act, which stipulates a company may not directly control more than one-third of the total cable-television market, nor own more than one-fourth of all television channels. The regulators will also see if the sale is legal under various laws limiting foreign investors to 49 percent direct ownership or 60 percent total (direct plus indirect) ownership of any telecom or cable-television company. Huang noted that, as a publically-listed company, Taiwan Mobile's total foreign ownership is already unclear, and adding in an additional 15 percent ownership by Carlyle will further muddy the waters.

¶4. (SBU) Huang added the NCC must also decide on how the sale is affected by provisions of the Telecom Act that forbid public

entities from owning broadcasting enterprises. According to Huang, if the deal goes through, the Taipei-City-owned Taipei Bank (TB) will have a small stake in Kbro through the Bank's partial ownership of Taiwan Mobile. [Note: According to our research, Taipei Bank sold TCB to the Fubon Financial Holding Company in 2002, and TCB is therefore now privately-owned. End note.]

15. (SBU) Huang opined that mergers between telecom and broadcasting enterprises will become more frequent as Taiwan moves toward digital convergence--the bundling of telephone, cable and Internet service (ref B)--which he thinks will eventually force the NCC to revise the laws setting these limits. Huang added even if the NCC Commissioners approve the deal, the decision might not be speedy, and the Commissioners could also add unexpected conditions, much as the Commission has done for recent, controversial cable-television license renewals (ref A).

16. (SBU) On September 17, former NCC Senior Specialist Yeh Ning--currently Senior Executive Assistant to Minister-without-Portfolio Kao Su-po, and rumored to be returning soon to the NCC as Secretary General--told econoff the NCC and the Taiwan Fair Trade Commission (TFTC) will, in addition to considering ownership limits and market share, also consider whether the deal gives Taiwan Mobile a monopoly or quasi-monopoly position in the cable-television market. Yeh thinks Taiwan Mobile will be able get under the one-third cap by selling off one of Kbro's smaller local operators, but added it is "hard to predict" how the NCC and TFTC will decide regarding the company's market power. According to media reports, in order to reduce its market share to under 33.3 percent, Taiwan Mobile plans to sell off the Hong Shulin Cable TV Company, which has 56,000 subscribers.

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Won't Affect Pending License Appeals

17. (SBU) In fall 2008, the NCC added financial conditions to several of Kbro's cable franchise license renewals. Kbro then made administrative appeals to the EY Appeals Committee on the issue of the legality of the NCC's granting of conditional licenses, requesting that the EY overturn the NCC's decision to grant such licenses (ref A). The Committee, however, due to the NCC's initial refusal to cooperate, failed to hand down its ruling within the legally-mandated five-month period, and the appeals process has dragged on for nine months. According to Yeh, Taiwan Mobile's acquisition of Kbro is not likely to affect the timetable or outcome of the appeals decisions.

Comment

18. (SBU) The deal, if approved by the NCC and FTC, would position Taiwan Telecom to challenge Chunghwa Telecom in the commercial race to implement digital convergence. Approval, however, is not certain, as the NCC will have difficulty figuring out what amount of Taiwan Mobile and Kbro are directly or indirectly owned by foreign investors, as well as the more subjective issue of Taiwan Mobile's possible monopoly power. End comment.

STANTON